

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Mark Acton, Vice Chairman;  
Tony L. Hammond; and  
Nanci E. Langley

Analytical Principles in Periodic Reporting  
(Proposal Three)

Docket No. RM2011-11

ORDER CONCERNING ANALYTICAL  
PRINCIPLES USED IN PERIODIC REPORTING  
(PROPOSAL THREE)

(Issued August 19, 2011)

I. BACKGROUND

In Order No. 203, the Commission adopted periodic reporting rules pursuant to 39 U.S.C. 3652.<sup>1</sup> Those rules require the Postal Service to obtain advance approval, in a notice and comment proceeding under 5 U.S.C. 553, whenever it seeks to change the analytical principles that it applies in preparing these periodic reports.

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<sup>1</sup> Docket No. RM2008-4, Notice of Final Rule Prescribing Form and Content of Periodic Reports, April 16, 2009 (Order No. 203).

On May 18, 2011, the Postal Service filed a petition<sup>2</sup> to initiate an informal rulemaking proceeding to consider changes in the analytical methods approved for use in its periodic reports to the Commission. The Petition was supported by three worksheets.<sup>3</sup> The Postal Service proposes to change the methodology by which the revenue from stamps and meter Postage in the Hands of the Public (PIHOP) is distributed to products in the Revenue, Pieces, and Weight (RPW) report. The Commission approves the changes in analytical methods as proposed.

## II. PROPOSAL THREE

Proposal Three has two parts. The first part would change how PIHOP revenue is distributed to products. The second part would change the method by which the book revenue adjustment is made. Both are discussed below.

To the extent that customers who have purchased stamps or metered indicia delay using them, there is a difference between the amount of stamp and meter postage purchased and the amount of stamp and meter postage used. The difference can be thought of as the unearned portion of sales revenue. This difference is referred to as the PIHOP liability, or PIHOP adjustment. Petition at 4.

The Postal Service observes that since the introduction of the Forever Stamp, customers hold onto stamps longer, increasing PIHOP liability. Further, new stamp consignment agreements and the introduction of Forever Stamp coils appear to have caused customers to hold onto stamps for longer periods. It also appears that customers have not changed their pattern of purchasing stamps despite using less single-piece First-Class Mail, thus adding to the PIHOP liability. *Id.* Because of this

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<sup>2</sup> Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytical Principles (Proposal Three), May 18, 2011 (Petition).

<sup>3</sup> Docket No. RM 2011-11 worksheets available at <http://www.prc.gov/Docs/72/72940/Prop.3.PIHOP.Attach.1.xls>, <http://www.prc.gov/Docs/72/72940/Prop.3.PIHOP.Attach.2.xls>, <http://www.prc.gov/Docs/72/72940/Prop.3.PIHOP.Attach.3.Public.xls>.

growth, the Postal Service has concluded that the current methodology for distributing PIHOP liability to products is becoming increasingly inaccurate. *Id.* at 6-7.

The Postal Service asserts that “too much stamp PIHOP is being distributed to Priority Mail, when very little Priority Mail is mailed using stamps.” *Id.* at 7. It also asserts that the distribution of meter PIHOP liability to products is inaccurate. *Id.* The Postal Service concludes that the current methodology does not accurately reflect the relative use of stamps and meters in the purchase of postal products. *Id.* at 3. For this reason, the Postal Service proposes a new method of distributing the PIHOP liability.

Although the Postal Service maintains separate accounts for stamp and meter PIHOP, the current methodology uses an aggregate distribution key to allocate both PIHOP accounts to products. *Id.* at 1. The current distribution key is the distribution of total Origin-Destination Information System and Revenue, Pieces, and Weight (ODIS-RPW) revenue to products. *Id.* at 3. The Postal Service proposes to replace that key with two keys. To allocate Stamp PIHOP to products, it would use the distribution of ODIS-RPW sampling revenue for stamps. To allocate meter PIHOP revenue to products, it would use the distribution of sampling revenue for meters. *Id.* at 10. This change, however, necessitates a further modification as explained below.

In its trial balance, the Postal Service reports all revenues by method of payment. *Id.* at 3. The trial balance, however, does not contain revenue by product.<sup>4</sup> To obtain revenue by product, the Postal Service uses the Bulk Revenue, Pieces, and Weight system (BRPW) and the ODIS-RPW sampling system. The BRPW system is a census of bulk mail. The ODIS-RPW is a sample of single-piece mail. The total revenue from these two systems, when added together, should match the trial balance total revenue. The trial balance total serves as the control total for revenue. *Id.* at 5. If the BRPW and the ODIS-RPW revenues do not match, the Postal Service assumes that the census

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<sup>4</sup> See File Prop.3.PIHOP.Attach.3.Public, Sheet “Proposed BRAF Construction,” Cell C12 and Cells H23 to K34.

revenue is correct and that the sampling revenue needs to be adjusted. The Postal Service refers to this procedure as the “book revenue adjustment.” *Id.* at 6.

The difference between the trial balance revenue, and the sum of the census revenue and sampling revenue, is referred to as the “residual.” The residual includes PIHOP revenue. A rationing process is used to adjust sampling revenues to match the residual. This ensures that the sum of sampling revenues and census revenues equal trial balance revenue. *Id.* Because the Postal Service proposes to distribute PIHOP revenue to products separately for stamps and meters, and because the remaining PIHOP (not related to stamps and meters) would continue to be distributed to products using the current distribution method, stamp and meter PIHOP revenue must be backed out of the residual to avoid being double counted. *Id.* at 10.

### III. COMMENTS

Comments were filed by the Public Representative.<sup>5</sup> No other interested person submitted comments.

The Public Representative recommends approving the proposal. He agrees with the Postal Service that the current methodology, based on total ODIS-RPW sampling revenue, distributes too much PIHOP to Priority Mail. Accordingly, he recommends the use of the ODIS-RPW sampled stamp revenue distribution key for stamp PIHOP and the meter indicia revenue distribution key for meter PIHOP.

### IV. COMMISSION ANALYSIS

The current key for distributing Stamp and Meter PIHOP revenues to products reflects the distribution of aggregate revenues to products. The Commission agrees with the Postal Service that the current methodology is likely to be inaccurate because it does not reflect the relative use of stamps and meters. This method masks the specific distribution of stamp revenues and meter revenues by product. In particular, it allocates

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<sup>5</sup> Comments of the Public Representative in Response to Order No. 736, June 23, 2011.

too much stamp PIHOP revenue to Priority Mail, which is generally not paid for with stamps.

The appropriate remedy is to develop separate distribution keys specific to stamps and meters that reflect their relative usage. The Commission is satisfied that the Postal Service's proposal accomplishes this. The Postal Service also recognizes that its book revenue adjustment procedure needs to be revised to avoid double counting stamp and meter PIHOP revenue. The Commission is satisfied that the Postal Service's revised procedure avoids such double counting. For these reasons, the Commission approves Proposal Three.

*It is ordered:*

For purposes of periodic reporting, the Commission accepts the changes in analytical principles proposed by the Postal Service in Proposal Three in Docket No. RM2011-11.

By the Commission.

Shoshana M. Grove  
Secretary